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The Manhattan Railway
Company

New York

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THE MANHATTAN RAILWAY COMPANY

Its Value
If separated from the Interborough

THIS Report is based upon information collated by our own organization from official or / and public records and other sources which we regard as trustworthy. In all such work we seek to use only facts and figures drawn from original printed authorities, or secured by our own inspection of properties and inquiries of officials and known experts, rather than to rely upon secondary books of reference. Thus we aim to secure—though we obviously cannot guarantee—accuracy in facts and reliability in conclusions.

Our clients may learn, on request, our authority for any statements which supplement or correct those commonly accepted as the basis for action upon investments.

WOOD, STRUTHERS & CO.
NEW YORK

THE MANHATTAN RAILWAY COMPANY

Its value, if separated from the Interborough.

The Manhattan Railway Company is not necessarily threatened by the troubles of the Interborough Rapid Transit Company, since possibly the Manhattan might safely stand alone in case of need; but there is no immediate need. Interest and dividends of the Manhattan are guaranteed by the Interborough under the terms of the Lease of January 1, 1903, by which the latter assumes the obligation to pay

Interest on Manhattan bonds (principal \$45,207,000)	\$1,808,280
Dividends at 7% on stock (\$60,000,000 total outstanding)	4,200,000
Corporate expenses, annually.....	35,000
TOTAL	\$6,043,280

as rental to the Manhattan Company. Until the Interborough shall be unable or unwilling to pay this rental, the interest and dividends of the Manhattan are thus assured.

BUT WHAT IF THE INTERBOROUGH SHOULD FAIL

TO PAY?

The Interborough's recent troubles make such a contingency possible, at least; and the difficulties inherent in continuing to operate on a five-cent fare are serious.

The Lease provides (Article XXI) that, upon failure of the Lessee to pay any part of the said rentals or upon any other default in the performance of its agreements, the Lessor, within

THE MANHATTAN RAILWAY COMPANY

a period of ninety days after such default, may enter into possession of the properties so leased. The Lease further provides that all leased property shall be kept up in all particulars, and returned to the Lessor in as good condition as when received, with all tools, equipment and real estate necessary to the operation of the leased lines. Provision is also made in the Lease and subsequent Agreement for extensions, changes in routes and in motive power of the property of the Lessor; but the extensions actually made were in accordance with the certificate for construction of March 19, 1913, issued to the Manhattan Company, as well as the certificate of same date issued to the Interborough for extensions. These extensions and betterments are, by the Lease and Agreement, when paid for with funds of the Interborough, to become the property of the Manhattan Railway Company upon termination of the Lease, but only "on condition of the payment by the Manhattan of the reasonable value thereof." The Interborough reports detailed expenditures for extensions and betterments to April 30, 1920, of \$39,331,699.74, and the capital funds unexpended \$6,120,341.18. The discount not included among the expenditures amounts to \$1,735,577.24, accounting for the total par value of the securities issued for these purposes, viz: \$47,154,982. Should the Lease be terminated for any cause, and should the Manhattan Company elect to pay \$47,154,982, assuming that such a figure would stand, its total capitalization would be \$152,361,982. The items would be as of June 30, 1919:

Capital stock	\$60,000,000
Consolidated (First) Gold 4s.....	40,684,000
A first lien on the entire property— mortgage practically closed.	
Second Gold 4s.....	4,523,000
(Authorized, \$5,409,000)	
<i>Issued by the Interborough Rapid Transit Com- pany; Consolidated First 5s for Extensions & Third Tracking</i>	<i>47,154,982</i>
	<hr/>
	\$152,361,982

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MANHATTAN PROPERTY

What property of the Manhattan Railway Company is there to offset such a capitalization?

For the purpose of this investigation we will omit all consideration of the \$47,154,982 charged to Extensions and Third Tracking, since its standing is later to be questioned.

The property of the Manhattan Railway Company consists of all the Elevated roads in Manhattan and Bronx Boroughs, with power plants, etc., existing in 1903. It does not include additions and betterments, to be further described (constructed in accordance with Certificates dated March 19, 1913), whose ownership by the Manhattan is conditional. There are actually owned about 38 miles of line—all double track, 72% three track, and sufficient fourth and fifth track with sidings to make a total trackage of about 130 miles. Its rolling stock owned June 30, 1919, according to the Interborough Rapid Transit Report, included 1,801 cars, exclusive of 476 cars chargeable to the extensions referred to above. An item not specifically mentioned in the published reports is of great importance, viz: the possession of many miles of conduits for cables which are at present necessary to the operation of the subways.

The total property of the Manhattan Railway Company which was leased by the Interborough Rapid Transit Company in 1903, can be identified only through the Lease and reports of the Public Service Commission. The latest of these published reports is dated June, 1916: and in this the details of fixed capital assets are given as of December 31, 1908, according to Public Service methods of accounting; but the figures vary slightly from year to year and it is impossible to make the totals correspond in the different years. The balance sheet as of December 31, 1919 (page 6) is taken from the records of the Public Service Commission: and the details of capital assets as of December 31, 1908 (page 7) are taken from the Commission's unpublished figures of June 30, 1919, the latest available.

THE MANHATTAN RAILWAY COMPANY

BALANCE SHEET—DECEMBER 31, 1919

Assets Side	
Cash	\$ 64,682.01
Special deposits	1,523.37
Accounts Receivable	9,211.39
Interest and Div. Receivable	63.20
Other current assets (including all materials and supplies)	7,503.52
Total floating capital	\$ 82,983.49
Real estate and other miscellaneous investments	\$ 452,618.18
Fixed capital Dec. 31, 1908:	
Tangible street railway capital	\$ 108,701,072.24
Installed since Dec. 31, 1908:	
Landed capital	25,107.70
Intangible street railway capital	1,013,306.11
Tangible street railway capital	3,270,093.87
Tangible street railway capital—disputed	106,635.73
Total fixed capital—net investment	\$ 113,116,215.65
Miscellaneous temporary debits	
Unamortized debt disc. and expense	\$ 622,735.44
I. R. T. Co. Lease account	377,322.73
I. R. T. Co. Equip. Reserve account	228,142.48
Total deferred debt items	\$ 1,228,200.65
TOTAL	\$ 114,880,017.97
Liabilities Side	
Bills and accounts due associated companies	\$ 188.90
Miscellaneous accounts payable	60.00
Total unfunded debt	248.90
Funded debt—mortgage bonds	\$ 45,195,000.00
miscellaneous	13,000.00
Owing to Lessee Company for betterments	112,187.56
Owing to Lessee Company for betterments—disputed	106,635.73
Total funded and other long-term debt	\$ 45,426,823.29
Premiums on stocks and other permanent reserves	1,809,382.06
Consolidated stock	60,000,000.00
Corporate surplus	7,643,563.72
TOTAL	\$ 114,880,017.97

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DETAILS OF CAPITAL ASSETS AS OF DECEMBER 31, 1908

(Reported on June 30, 1919)

REAL ESTATE	\$ 12,263,440.63
Cost of real estate including sites for main power station and seven sub-stations	\$ 2,674,275.01
Cost of buildings and structures outside of streets, highways and public places	2,758,815.50
Main power station building and bulkhead	1,381,864.54
Sub-power station buildings	493,554.15
Engines, generators, boilers and all other machinery in power and sub-stations	4,954,931.43
EQUIPMENT	\$ 12,120,744.83
Motor passenger cars, trailer passenger cars, and motor and trailer service cars	
SUBWAYS	1,039,132.58
LAND DAMAGES	22,230,687.14
Including expenses of litigation	
FOUNDATIONS, STRUCTURES, TRACK	35,028,158.84
Superstructures, stations, etc., of Second, Third, Sixth and Ninth Avenue Elevated Lines, Boroughs of Manhattan and Bronx, exclusive of items stated separately below	
DISCOUNT	6,974,285.00
On New York Elevated, Metropolitan Elevated and Manhattan Railway Company bonds	
AMOUNT, par value	5,113,309.48
Of Manhattan Elevated Railway Co. Capital Stock	
Bonds issued for road built by contract, per expenditures for construction, as found by Board of Railroad Commissioners in 1883	
INTANGIBLE STREET RAILWAY CAPITAL	14,014,000.00
Cost of lease of N. Y. Elevated R. R. Co.	\$ 6,539,000.00
of Met. Elevated Ry. Co.	7,475,000.00
TOTAL	\$ 108,783,758.50

THE MANHATTAN RAILWAY COMPANY

From a consideration of the foregoing figures, taken from Public Service Commission reports and records, it appears that, as of December 31, 1919, the Manhattan Railway Company's total fixed capital—net investment—was \$113,116,215.65.

Looking at the matter in more detail, the main realty items may be stated as follows:

As of December 31, 1908 (see remarks on p. 5)	\$ 48,330,732.05
Realty outside of streets, including power stations, machinery, etc.	\$ 12,263,440.63
Subways	1,039,132.58
Structures in streets and other tangible railroad property	35,028,158.84
Added between 1908 and 1919.....	3,401,837.30
Landed capital	\$ 25,107.70
Tangible street railway capital..... disputed	3,270,093.87 106,635.73
Total realty items.....	\$ 51,732,569.35

In this connection it should be noted that the company estimated its realty for purposes of taxation, June, 1916, less depreciation, at about \$42,000,000; and the assessment made then against the realty plus intangible value in streets (franchise) was nearly \$77,700,000. These are the latest published figures.

Included in intangible value, there were specified the cost of the lease of the New York Elevated Railroad Company and of the Metropolitan Elevated Railway Company, and other items added since 1908, valued at \$15,027,306.11. Public Service Commission records also give under assets in this connection "Land Damages," including expenses of litigation, at \$22,230.687.14. As this item covers only the actual cost of easements, it might be added to the present value of realty as a legitimate element of the unavoidable cost of the property.

Accepting all such items there would be, to offset the assessment of nearly \$77,700,000, property valued at \$88,990,562.60 (see below); and the total fixed capital may be itemized as follows:

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Realty, etc.	\$ 88,990,562.60
Total realty	\$ 51,732,569.35
Intangible value in streets.....	15,027,306.11
Land damages	22,230,687.14
Equipment	12,120,744.83
Discount on bonds	6,974,285.00
Metropolitan Elevated Railway stock and bonds (see page 7)	5,113,309.48
Total fixed capital—net investment.....	\$113,198,901.91

Regarding some of these items, we understand that discount on bonds was more than offset by corporate surplus as shown in the balance sheet and applied to capital purposes at the time of the lease. Such items as Land Damages, Discounts, etc., might be allowed or not, in case of litigation, according to the Court's attitude toward capitalizing franchises; and in an unfriendly Court some of the debatable items might be disallowed.

The stock of the Manhattan Railway Company in 1902 was \$48,000,000, paying 4%. There has since been issued \$12,000,000 of which \$7,200,000 was sold for cash at par and \$4,800,000 sold for cash (at auction) at 140, and the proceeds were expended in completing the electrification of the Company's lines, adding new equipment and disposing of land damage claims. There were also issued in 1915, second mortgage bonds in the amount of \$4,523,000 to reimburse the Borough for expenditures made to strengthen the structure and improve the property in a general way. These are a second lien on all the property of the Manhattan Railway Company.

At the present time, therefore, there are outstanding Manhattan Railway Company securities as follows (see page 4):—

Capital stock guaranteed 7%.....	\$ 60,000,000
Consolidated (First) guaranteed Gold 4s.....	40,684,800
Second guaranteed Gold 4s.....	4,523,500

Total Manhattan Railway Company Securities outstanding	\$105,207,500
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It may be here remarked that the difference between the total fixed capital (\$113,198,901.91) as above, and the total of Manhattan Railway Company securities (\$105,207,500) is approximately represented by the "Corporate Surplus, \$7,643,563.72" shown in the balance sheet—December 31, 1919.

THE MANHATTAN RAILWAY COMPANY

WHAT IS THE CONDITION OF THE PROPERTY?

Competent engineers have recently testified that the property—structure and equipment—is in excellent condition. At the time of the electrification of the Manhattan, the structure had to be greatly strengthened to carry the heavier trains; and it is a matter of common knowledge that when the Third Tracking was installed, in very recent years, the structure was further greatly strengthened. For maintenance of the property, an average of 12.6% of gross revenue (some \$21,000,000) has been spent since the year 1910; and in 1917, under the Interborough Certificate for Extensions, 12% per annum of gross revenue was required to be set aside for maintenance of all ordinary parts of plant and structure, but not for principal parts. Principal parts were provided for by a depreciation account of 2% per annum for the first year, and an amount to be decided upon by the Public Service Commission and the Interborough for the years thereafter; such amounts to be expended under direction of the Commission, to provide against wear and tear or obsolescence, inadequacy or age. Records show that more than 14% of gross earnings has been actually spent since 1918 on all types of maintenance. This 12 to 14% has been divided nearly equally between maintenance of structure and maintenance of equipment.

POSSIBLE DEFAULT BY THE INTERBOROUGH

In case of a default of the Interborough, for any reason, on the terms of its lease of the Manhattan, the latter may resume operation of its property as leased in 1903 on its original territory only. Nevertheless, it is well to bear in mind that the Interborough Rapid Transit Company is an organic whole. The lease of 1903 and the Agreement of 1913 plainly indicate that it was the expectation that the union of the Interborough and the Manhattan Companies would be perpetual. Profits and losses, while allotted to the different organizations under the necessities of account-keeping, were intended to be in practice the profits and losses of one organization which included them both—organically not mechanically. Still, the lease specifically

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provides for the resumption by the Manhattan of at least its original properties, should default occur; and default has been rendered not improbable by the recent financial difficulties of the Interborough. A five-cent fare is probably not sufficient to enable the Interborough to meet all its obligations and there seems to be little present hope of an increase. Certain questions arise, then, in view of a possible default of the Interborough on its Manhattan lease.

- First, What is the situation, both under the Lease and in present conditions, respecting the resumption of its property by the Manhattan?
- Second, If the Manhattan should operate singly, would it be compelled to operate the Extensions and Third Tracking?
- Third, Would the Manhattan have to assume the debt (\$47,154,982), or any part of the debt contracted by the Interborough to build said Extensions and Third Track?

RESUMPTION OF ITS PROPERTY BY THE MANHATTAN

The Lease provides (Article ninth, page 15) that at the expiration or termination of the Lease for any cause, the Lessee (Interborough) shall return all the property of the Manhattan in as good condition and repair as when taken over; and that the Lessee shall at all times maintain at its own expense, all rolling stock and equipment generally, in proper condition, replacing at its own expense such as shall be worn out or rendered unserviceable. Engineers of the highest competence and character report that the property has been properly maintained. The rolling stock, a part of this property, is, on the testimony of President Skitt of the Manhattan, actually so owned and marked.

The Manhattan's physical properties are in a commanding position with reference to the Interborough properties. The 74th Street Power House of the Manhattan is the equal of any such plant in the United States, superior to anything owned by the

THE MANHATTAN RAILWAY COMPANY

Interborough, and the sub-stations are strategically placed. More than \$6,500,000 has been spent on the power systems of the Manhattan in the past five years, and a great deal of power now used by the Interborough is supplied from this system. Then, too, the Manhattan owns an extensive system of underground cables, which serves the Interborough. The co-operation of the Manhattan is essential to the proper working of the Interborough.

The Acceptance by the Manhattan of Extensions and Betterments Made by the Interborough Outside of the Conditions of the Lease, is Purely Optional.

The extensions were made under the so-called Extension Certificate of the Interborough, acting, to be sure, as Lessee of the Manhattan properties; but there is no indication that these extensions were made under Manhattan franchises. On the contrary, it is expressly stated that "the authorizations or licenses hereby given for the Webster Avenue Line, the Eighth Avenue and 162nd Street connection, the Queensboro Bridge Line and the West Farms Subway Connection are separate grants, and the City, acting by the Commission or by such other board or boards as may be thereto empowered, may terminate any such authorization or license and may purchase and take the plant and property as hereinbefore defined * * * at any time after the expiration of ten years * * * at least one year's notice thereof in writing shall be given to the Interborough Company." (Italics ours) (Article XIII of said Extension Certificate p. 121, Public Service Commission Report 1913 Vol. IV).

"In case the City itself shall take over the plant and property such payments shall be made * * * as may then be provided by law." (Same article, p. 125).

Article XV (pp. 127-28) refers to the possession by the City of terminals, storage yards and shops under such conditions.

Article IV reads: "In the event that the City, under the terms of the Certificate (above referred to—W. S. & Co.) shall, prior to the termination of the said authorization or licenses, exercise the right conferred thereunder to take over the plant

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and property, and the Manhattan Company shall not in the meantime in any manner have acquired the rights of the Interborough Company (Italics ours—W. S. & Co.), the payment made by the City as a condition of the termination of the said authorizations or licenses shall be made to the Manhattan Company and to its lessee or lessees respectively, in proportion and to the extent to which the said parties shall have paid the cost of the said plant and property." (Agreement of March 15, 1913, between the Manhattan and the Interborough modifying the lease, p. 3).

It is obvious, from these citations, that title to the extensions does not now vest in the Manhattan Company and that it has no claim upon them beyond anything it may have expended upon them—not the expenditure of the Interborough. So that the Manhattan Company, having no title to or rights in these extensions, except as to its own expenditure, could hardly be required to take them over in the absence of any specific requirement to that effect; and there is no such requirement. *The title to these extensions is in the City—which, however, may not take them without paying a reasonable value for them and after due notice.*

In the same way (Section XI, p. 152, Vol. IV, Public Service Commission Report 1913) the authorization for the Third Trackage of the Manhattan, which was given in a special certificate, while "without derogation to any existing right of the Manhattan Railway Company to operate its railroads as they now exist in the event that the authorizations and licenses granted by this certificate should be terminated" (p. 138 do), is yet a special grant. It may be terminated, upon one year's notice, ten years or more after the commencement of operation. But the City must pay the full value of construction plus 15%—and a scheduled diminution of this amount for each year thereafter in case possession is postponed. But neither the City nor any lessee of the City may maintain these third tracks for transit operation.

In a detailed study, Messrs. Stone & Webster, on page 13 of their report of December 11, 1919, to Judge Mayer, say:

"We are advised that if, upon default by the Interborough Company under the lease, the Manhattan Company resumed possession of its property, it would

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be under no obligation to operate the extensions of the system made under the Interborough Certificate since the date of the lease or to give through service over the subway extensions under the terms of the trackage agreement. If the operations of the Manhattan Company were confined to the system as it existed at the time of the lease plus the third track additions built under the Manhattan Certificate, the results to that Company would undoubtedly be very much more favorable than the showing of the Manhattan Division under existing conditions."

Should the Manhattan resume operation of its properties as of 1903 within its original territory only, the extensions would apparently be left high and dry—without right of connection with the old elevated lines.

WHAT OBLIGATION HAS THE MANHATTAN WITH REFERENCE TO MONEY SPENT FOR EXTENSIONS, ETC.?

We have shown that there is no title in the Manhattan to the extensions and third tracking and that the Manhattan could not be compelled to operate the Extensions. Nor could it be compelled to pay for the Extensions. Article XIV of the Lease provides that "all extensions, etc., * * * shall remain for use upon or as part of said demised property, and shall be and become the property of the Lessor (Manhattan) upon the payment by the Lessor of the reasonable value thereof." Article XV provides for the transfer of real estate, tools and machinery necessary to the operation of the Manhattan under the same conditions of payment. Article XXI gives the conditions of default. Article XXIV declares that indebtedness of the Lessor cannot be increased without its consent, nor any lien or mortgage created. The acceptance by the Lessor of extensions and betterments made by the Lessee is purely optional; and it is highly improbable that the Manhattan would assume any expense whatever for the extensions, which are a liability, not an asset, under present conditions.

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The case is somewhat different with respect to the Third Tracking. This improvement was and is of benefit to the Manhattan as well as to the public. The Manhattan alone can operate the third tracks; but it is not compelled to assume the expense incurred for their construction at the figures now shown by the Interborough—something like \$20,000,000 bonded at 5%. But if the Manhattan shall use the Third Tracks, it must pay for them. They are so valuable that the Manhattan would be willing to pay; but there is no way of determining the amount of payment. That amount would depend partly upon what it would cost the Manhattan to raise the money. Something might also have to be paid on account of the improvements in the Power Plant, over six and one-half million dollars having been spent upon it by the Interborough; but with reference to both Third Tracks and Power Plant, the Manhattan would be in the strategic position of holding properties of no use to anyone else for which it could not be compelled to pay any definite sum. If asked an unreasonable amount for the Third Tracks, it may cease to operate them. If asked more than it is willing to pay for improvements in the Power Plant, it may say:—"Take them out and give me back my original plant"—a manifest impossibility.

If we assume that the interest account payable on these two items will be about \$500,000 per annum, it will be perhaps as near as we can come under present conditions.

There is then in order a comparison of past earning power of the Manhattan with what it might be under the conditions just indicated, of separate operation, assuming the Third Tracks at a valuation and declining to assume the Extensions at all.

RECENT EARNING POWER

It must be borne in mind that there are no figures possible on the Manhattan Railway Company separately since 1903, because the Manhattan has existed since then, statistically, only as the *Manhattan Division* of the Interborough Rapid Transit Company. Any inquiry into the recent earnings of the *Manhattan Division* must also be related to the fact that only since June, 1917, are receipts and expenditures to be estimated in connection with the extensions which have thus far proved unprofitable. The increase in passengers carried and in earn-

THE MANHATTAN RAILWAY COMPANY

ings would have been little affected had these extensions not been made, whereas a very large increase of charges would not have been incurred.

Passengers carried in 1904, the first full year of operation in connection with the Interborough, were 286,634,195. In 1919 there were 348,288,600, the increase being gradual but constant except at the time of opening of new subways, when there were temporary setbacks. The figures for the first three months of 1920 are 96,112,259, an increase of 15% over the same period for 1919. Earnings from traffic, which are almost all the earnings except in recent years when the sale of power has become important, have increased from \$14,139,359.20 in 1904 to \$17,422,288 in 1919.

A condensed statement for the years 1917-19 inclusive will be illuminating.

	1917	1918	1919
Gross revenues.....	\$18,411,254	\$18,657,280	\$18,575,002
Operating expenses and taxes.....	10,535,564	12,063,326	14,107,409
Balance.....	\$ 7,875,690	\$ 6,593,954	\$ 4,467,593
Deduct in each case the interest on its obligations assumed by the Interborough (Manhattan Lease).....	1,808,280	1,808,280	1,808,280
Balance after Interest.....	\$6,067,410	\$4,785,674	\$2,659,313
Deduct in each case dividends on its ob- ligations assumed by the Interborough (Manhattan Lease).....	\$4,200,000	\$4,200,000	\$4,200,000
Available to pay in- terest on obligations of the Interborough issued to pay for extensions and Third Tracking.....	1,867,410	585,674	1,540,687 (Deficit)
Less interest on Inter- borough 5%, Sinking Fund, etc., actually charged.....	737,950	1,232,802	* 2,254,706
Balance.....	\$1,129,460	\$ 647,128	\$3,795,393
			(Deficit)
			(Deficit)

* Including Sinking Fund, interest on 3-year notes, etc.

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From this statement it is apparent that even in 1919, the *Manhattan Division of the Interborough* earned nearly 2½ times interest on Manhattan Railway Company bonds. It also appears that the Interborough, under the Certificate granted to it by the Public Service Commission for Extensions and also under the Manhattan Certificate for Third Tracking has expended about \$47,000,000, interest on which it charges to its *Manhattan Division*. In 1919 the Interborough charged its *Manhattan Division* with \$2,254,645.53, interest and Sinking Fund on the above named \$47,000,000 bonded by the Interborough at 5%.

Such a method of accounting, while in accord with the directions of the Public Service Commission, does an essential injustice to the Manhattan Railway Company, often charged with being a burden on the Interborough. From such accounting, it naturally follows that Stone & Webster may justly report a deficit in Company preferentials, to be presently explained, charged to *Manhattan Division* account by the Interborough, of \$518,757 in 1917, \$2,459,234 in 1918, and \$5,804,416 in 1919.

When we further consider that, since 1916, the cost of operation has increased enormously, owing to the cost of materials and labor, it is evident that the *Manhattan Division of the Interborough Rapid Transit Company* cannot meet its fixed charges; but an estimate of the proper earning power of the Manhattan Railway Company should not be prejudiced by this fact. As the Manhattan Railway Company, whose soundness is being investigated, we have no right to impute to it fixed charges according to the Interborough schedule.

We note, however, that the operating ratio (taxes included) of the *Manhattan Division* has risen steadily. In 1904 it was 48¾%, in 1908-9, 55½%, in 1916-17, 57½%, in 1917-18, 64½%, in 1918-19, 75.8%. This includes, of course, the expense of operating the unprofitable extensions. There is no way of determining the exact earning power of the Manhattan Railway Company in itself since at present it is inextricably bound up with the Interborough.

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THE PREFERENTIALS

We have referred to the estimated deficits in the preferentials of the Interborough Rapid Transit Company. These preferentials are payments which must be made out of gross earnings in a fixed order determined in the rental agreement between the Interborough and the City under what is known as Contract No. 3 of 1913. These are, in order, (1) interest on the City's investment in the old subways, \$2,400,000, (2) the Manhattan rental guarantees and some other small rentals, over \$6,000,000, (3) taxes, (4) operating expenses, (5) 12% at least of gross revenues for maintenance account, (6) then an amount equal to the average annual income from the old subway and the Brooklyn-Manhattan Rapid Transit \$6,335,000. It is at this point that interest and sinking fund for the Interborough First and Refunding Bonds begins to be met. (7) 6% of the Lessee's (Interborough) contributions to cost of construction and equipment, \$4,800,000; and so on. There are similar provisions relating to earnings from the Elevated Lines and Extensions.

The preferentials are all cumulative. Because of this the Interborough in 1917 and 1918 added to its apparent income over \$10,000,000 credited to accruals, which were simply book-keeping statements of amounts which might be earned some day, and which, if earned, would be a company preferential. Whatever may be said about such a method of accounting, the result of it is that the apparent ability of the *Manhattan Division* to pay its fixed charges at the moment is apparent only. There is a large deficit. Stone & Webster's estimate, December 11, 1919, was that the Interborough would earn by July, 1920, but \$2,453,000 of the \$11,731,000 necessary to pay interest on the First and Refunding 5%'s and Sinking Fund requirements. This proves to have been an underestimate of the Interborough's earning power for the year ending June 30, 1920, net earnings showing largely in excess of Stone & Webster's estimate; but even so the Interborough, in meeting its July interest, sold practically all of its free real estate, gave a note for \$1,000,000 (in December, 1919, extended June, 1920) to the Interborough Consolidated Corporation, and other notes to bankers. Such a condition if continued might lead to a default on the Man-

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hattan lease and a dissolution of the bond between the Companies. The stockholders of the Manhattan may accept a lower rate of dividend but only by unanimous agreement (Article VI of Lease on p. 11); but the lease was not made with stockholders as such and this may be simply a piece of rhetoric.

WHAT WOULD BE THE FINANCIAL OUTLOOK FOR SUCH A SEPARATED MANHATTAN RAILWAY COMPANY?

If the Manhattan Railway Company should resume operation of the properties on its original territory only, it would have to expect something of a falling off in traffic because of its failure to carry to their destination passengers living on the extensions; but not all of these would fail to travel, simply because some of them would have no other way by which to reach their destination. The present number of passengers carried is about 360,000,000. Lop off, arbitrarily, since there is no way of knowing—10,000,000 of the 30,000,000 now due to extension travel. This leaves

350,000,000 at 5 cents.....	\$17,500,000
Other revenue	1,250,000
Total revenue.....	\$18,750,000
Charges:	
Old bond interest.....	\$1,808,280
Dividends on present basis..	4,200,000
Interest on funds to pay for	
Third Tracking—a guess..	500,000
Profit and loss—deficit.....	\$6,508,280
	\$1,820,780

THE MANHATTAN RAILWAY COMPANY

A six cent fare would yield \$21,000,000, thus changing this deficit into a surplus of \$1,679,200—but again, this would be reduced by the amount of decrease in traffic due to the refusal of some to pay any increased fare. Estimate this number at another 10,000,000 and we have \$500,000, leaving a surplus of something over a million dollars on a six cent fare basis. These estimates must be taken for what they are worth. No one can tell accurately what future conditions will be. But the estimate on the basis of a six cent fare is legitimate; for the Manhattan by its Charter is not limited to a five cent fare as is the Interborough under Contract No. 3. On the contrary, by its Charter, it could charge up to 17 cents to High Bridge under certain conditions—and seven cents under all. It might be limited, in fact, by the Public Service Commission; but in any case there would not be the positive obstacle of a provision in the lease for a five cent fare.

A strong presumption that the Manhattan could secure an adequate rate is created by the recent action of the Special Master in the Consolidated Gas Company case who declared (May 1920) that the Company is entitled to at least an 8% return on admitted capital. On June 29th the Federal District Court granted preliminary injunctions against the State Attorney General, the Public Service Commissioner of the First District of New York and the District Attorneys in the four boroughs against enforcing the law requiring 80 cent gas on the ground that such a rate was confiscatory.

Should these injunctions be made permanent, the consequences would be far reaching for other public service corporations. If it can be shown that the Manhattan Railway Company, separated from the Interborough, is entitled to a capitalization of, say, only \$89,000,000—see page 9—then an 8% return on such capitalization would yield \$7,120,000, approximately the amount produced by a six cent fare. A six cent fare, therefore, could not be considered excessive.

To sum up the situation: Until the Interborough defaults, the interest on Manhattan bonds and dividends on Manhattan stock

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will be paid. If it should default, it seems unlikely, under ordinary conditions, that the Manhattan could be forced to operate all the elevated lines except at a fare which would yield an adequate return. If refused a proper increase, it should be able to fall back upon the operation of the properties on its original territory and be vastly better off. If allowed a six cent fare, earnings would very probably take care of interest and dividends on the present basis unless there should be a further inordinate increase in operating costs due to increased wages and cost of materials. Even on the basis of a five cent fare, present interest and dividends at a lower rate could probably be earned, especially in view of the recent increase in travel on the elevated.

A DARKER VIEW

But we cannot escape consideration of what might happen were there to be some popular political move looking to Municipal ownership under such an administration as we now have. A political commission would probably disregard franchise values, contending that the stockholders had already sufficiently profited thereby. It would not be a commission of engineers and bankers knowing the meaning of replacement values, easements, rights of way, discounts, etc., and their justification. It would probably undervalue the property and would enter upon a course of payment by taxation, rather than by increased fares, because, under taxation, immediate responsibility is not made plain.

Under such conditions, security holders might well be wary. There would be always the courts to appeal to, but under foreclosure proceedings, the stockholders would certainly lose much, if not all—and the bondholders, if forced to accept merely the physical property, minus franchise rights, would have a doubtful security. The franchise of the Manhattan is a perpetual franchise; but modern political radicals, and indeed some who are not radicals, consider perpetual franchises contrary to the public interest. Should franchise rights, land damages, discounts, and

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such items be thrown into the discard, our opinion of the Manhattan Securities would not be favorable. This is a remote contingency, but it must be considered a possibility.

Under all but such confiscatory conditions, the bonds appear to be reasonably safeguarded, and the stock a moderately attractive speculation at present prices.

July, 1920.

POLITICS

plays such a large part in the fortunes of all

PUBLIC UTILITIES

that it is important for investors to know just how far

CONTRACTS AND COURTS

can be counted on to protect

INVESTMENTS in them.

But it is also essential for investors to weigh

FORECLOSURE VALUES,

in order to know what property they may be compelled
to accept in place of INTEREST and PRINCIPAL
in default.

OUR POLICY

is to make most careful studies of all pertinent facts
and to form an impartial judgment upon them. Our
facilities and methods are open to your careful
investigation.

WOOD, STRUTHERS & CO.

5 Nassau Street

NEW YORK

MSH #22529

**END OF
TITLE**